PepsiCo, Inc. Annual Report 1973

About this report

PepsiCo, Inc., is a diversified, consumer-oriented company whose products and services are aimed at basic, continuing needs of people—across the entire economic spectrum, in every part of the world, in every kind of year.

PepsiCo's leading trademark brands of soft drinks, snack foods, wines and spirits, and the equipment for sports and games answer people's need for refreshment and recreation. PepsiCo's transportation services answer their need for mobility, to go where opportunity leads. PepsiCo's leasing services answer their need for the tools and equipment of enterprise, when capital must serve other requirements.

This report highlights PepsiCo's progress in 1973 toward its goal of meeting those fundamental needs today, and seeking better ways of filling more of them tomorrow.

On the cover: At PepsiCo World Headquarters in Purchase, New York, *Double Oval,* a massive work by the distinguished English sculptor, Henry Moore, dramatically adorns the year-end snowscape.

Financial Highlights

Net Sales in 1973 were $1,697,924,000, a 21 percent increase over $1,400,115,000 in 1972. Excluding Rheingold, net sales were up 15 percent.

Net Income in 1973 was $79,596,000, up 11 percent from the $71,718,000 in 1972.

Earnings Per Share were $3.36, or 10 percent over $3.05 for 1972.

Average Shares Outstanding were 23,664,000 for 1973 and 23,525,000 for 1972.

Dividends paid were $26,968,000 for 1973 and $23,324,000 for 1972.

Plant and Equipment Expenditures were $87,957,000 in 1973 as compared with $56,632,000 for 1972.

Depreciation and Amortization were $41,634,000 and $33,996,000 for 1973 and 1972, respectively.

Shareholders' Equity increased to $498,558,000 at the end of 1973, compared with $440,768,000 for 1972.

To the Shareholders:

Donald M. Kendall, *Chairman and Chief Executive Officer*

Andrall E. Pearson, *President*

In 1973, PepsiCo's sales and earnings again exceeded their previous levels.

Sales rose 21 percent to $1.7 billion (up 15 percent, excluding Rheingold). Net income increased 11 percent to $79.6 million. Earnings per share were up 10 percent to $3.36 per share.

Strongly increased sales and improved market-share positions enabled us to meet our profit goal for the year while expanding the solid base for our continued future progress.

This performance was all the more notable in view of new and severe external pressures we faced in 1973. For example, the prices of our two major consumer product lines, soft drinks and snack foods, were subject to rigid price controls by the Cost of Living Council at the same time their raw materials costs were permitted to rise sharply, creating an inevitable profit squeeze; yet despite that fact, Pepsi-Cola, Frito-Lay, and our other operating divisions generated sales vitality sufficient to offset the effect of those adverse conditions and give us our fifteenth successive year of profit growth.

That record, we believe, demonstrates the basic soundness of the long-term approach we have taken toward building for PepsiCo's future. It is based on an aggressive program of capital expenditures to facilitate expansion; our entry into new lines of business where we can profitably deploy our management, marketing and financial strengths; and the use of planning and control processes that work. Each of these is discussed more fully below.

Our record indicates also the skill and rising level of competence of the management teams we have been building to head our divisions, the accuracy of their market appraisals, and the success of the marketing directions they have charted to maximize their respective opportunities.

Operating in a highly competitive market, our divisions not only increased their sales over the previous year's record levels, but also increased their respective shares of each market where such performance is regularly measured.

By the end of 1973, Pepsi-Cola Company had registered its 26th consecutive month of market-share improvement in the most significant segment of its business, the nation's major food stores. While the domestic soft drink industry in 1973 was growing at a rate of about 5.5 percent, Pepsi-Cola's growth surpassed that rate.

Similarly, Frito-Lay continues to expand upon the leading position its principal snack food products have enjoyed in their respective market categories for the past several years.

Our international operations showed excellent results in 1973, despite the effects of governmental controls in some key markets. In the soft drink field, our long program of investment and building in Europe has begun to produce encouraging results, and we have also made substantial progress in the Philippines, where Pepsi is the leading cola sold. In 1973, both those markets strongly increased their profits over the previous year's. We look forward to considerable future opportunity in two huge markets now open to Pepsi-Cola for the first time: the Soviet Union and Indonesia, two of the world's most populous nations. Our overseas snack food operations in Venezuela, Sweden, Mexico, Spain and most recently France increased their total sales by 28 percent over 1972. Because this business is in a developmental phase, earnings are presently nominal, but we are confident it represents a major future opportunity.

Wilson Sporting Goods showed substantial gains in both sales and earnings for the year, continuing their favorable trend. Line extensions, into new as well as existing sports equipment areas, have broadened our consumer potential, and major expansion of the production facilities for tennis rackets and golf

balls are helping us to meet the greatly increased demand for these products.

Our Transportation division, headed by northAmerican Van Lines, has again shown strong improvement in competitive position and we have enjoyed good profit increases, with PepsiCo Truck Rental and Mobilease also contributing.

The Leasing division, with an augmented marketing staff, has functioned well. More accurate analysis and segmenting of the market has increased the effectiveness of our appeals to potential customers, utilizing several innovative approaches in this field, such as carefully targeted media advertising.

The wines and spirits of our Monsieur Henri division have enjoyed another outstandingly successful year. Yago Sant'Gria has now become America's leading imported wine, and construction is nearing completion in Spain of a new facility capable of doubling our production of this increasingly popular product. Stolichnaya vodka, imported from the USSR exclusively by Monsieur Henri under our reciprocal agreement to market Pepsi in the Soviet Union, is now distributed in the 10 major metropolitan markets for vodka in the U. S., with encouraging public acceptance.

By the end of 1973, PepsiCo completed its acquisition of 100 percent of the outstanding shares of Rheingold Corporation, which bottles and sells Pepsi-Cola in Los Angeles, Orlando, Mexico City and the Commonwealth of Puerto Rico. Under new management direction, all of the Rheingold group of Pepsi-Cola franchises showed greatly improved sales activity, as anticipated.

From the time of its acquisition of Rheingold late in 1972, PepsiCo has stated on numerous occasions it had no long-term intention of retaining the beer segment of Rheingold's operations, and has conducted an intensive search for new owners for its breweries. Contracts for the sale of the breweries were recently signed.

As a leading multinational corporation, PepsiCo maintains its opposition to legislative attempts to penalize and hamper the operations of such companies, which are important contributors to America's exports and balance of payments, and strongly supports passage of the Trade Reform Act now before Congress.

The current worldwide fuel and energy crisis will inevitably have at least some impact on PepsiCo's operations in the coming year, and each of our divisions is reassessing its requirements to make maximum utilization of the available resources. However, we are fortunate in that our activities are not heavy users of fuel, and an intensive company-wide campaign for energy economy has produced excellent results. While we will undoubtedly face some problems, we presently foresee in this crisis no serious impediment to our normal growth progress.

On February 28, 1973, the board of directors voted to increase PepsiCo's dividend, beginning with the March 30 quarterly payment, from $1.00 to $1.08 per share on an annual basis. On July 26, the board voted an additional increase to $1.20 per share yearly, beginning with the September 28 quarterly payment. Both these increases, of eight and 11 percent respectively, were compatible with the government's recommended guidelines.

We welcome to our Board of Directors Mr. T. Vincent Learson, former chairman of the International Business Machines Corporation and director of a number of other important corporations.

Donald M. Kendall

Donald M. Kendall
Chairman of the Board of Directors
and Chief Executive Officer

Andrall E. Pearson

Andrall E. Pearson
President

March 15, 1974

Once, tennis wasn't just a game, it was also a symbol of social privilege. Now, in a program sponsored by Pepsi-Cola in major cities across America, popular stars conduct teaching clinics on blocked-off streets or at indoor courts, so that urban-area youngsters, too, can learn to enjoy not only the solid grip of a Wilson racket, but also the feel of participating in a broader range of life experiences.

Soft Drinks

In 1973, with the help of national marketing programs and support provided by Pepsi-Cola Company, the more than 500 franchised Pepsi bottlers of America continued to expand their share of their most important market segment, major food stores.

As part of its function of supplying national advertising direction for its products, the company developed several new campaigns during 1973.

Although audience-testing procedures continued to indicate that Pepsi-Cola's copy theme, "You've Got A Lot to Live—Pepsi's Got a Lot to Give," was still scoring acceptably, experience has shown that periodic theme changes keep Pepsi's selling approach more finely tuned to the contemporary environment. A widespread feeling identified by recent attitude-research studies was a common desire for individuality, for distinctive self-expression; Pepsi's new theme was designed to home in on it: "Join the Pepsi people, Feelin' Free." The act of choosing and enjoying Pepsi is depicted in the new campaign as an act of personal independence and joyful self-assertion.

Similarly, a new campaign has been developed for Diet Pepsi, stressing the new formulation's reduced caloric content: "We've Got Your Number—It's One." Mountain Dew's former rustic approach has shifted to one emphasizing the product's bright golden color: "Hello Sunshine, Hello Mountain Dew." (A new campaign for the company's lemon-lime product, Teem, will be introduced later in the year.)

Public relations activity in 1973 sought to identify Pepsi more closely with the current concerns of its principal consumers. Youth-oriented sports promotions won wide participation and favorable media attention, and these were complemented by public service activities that offered constructive direction to scholastic ecology groups, exchanged paperback libraries for bottle caps collected by schools, and provided youngsters with a grounding in the basic principles of the free enterprise system.

To quench family-size thirsts, Pepsi-Cola bottlers in most areas are offering consumers Pepsi in its newest and largest value package, a 64-ounce bottle.

Members of New York's City Center Ballet were only a few of the many millions of fitness-conscious Americans who applauded 1973's introduction of popular Diet Pepsi in a new, good-tasting, sugar-free formulation that contains just one calorie in each 12 ounces.


PEPSI
32
PEPSI
48
PEPSI

Snack Foods

Frito-Lay, Inc., operates in a dramatically growing market. Sales of snack and convenience foods have been growing considerably faster than other grocery store items, and Frito-Lay continued in 1973 to improve its share of this market. With strong sales momentum in many categories of the snack business, Frito-Lay entered 1974 in a favorable position for future growth.

Innovative moves during the year include the introduction of a new line of single-portion snack packages—of such items as cheese and crackers, peanuts, beef sticks and beef jerky, oatmeal cookies and fudge brownies—for lunch counters, service stations, bars and other on-premise outlets, as well as convenience stores.

Other products joining the line are Sunchips, a premium quality potato chip with a distinctive taste and texture; Lay's brand sour-cream-and-onion-flavored potato chips; and Lay's brand enchilada dip. Production and sale of Bacon-Nips, another recently introduced item, expanded during 1973.

During the year, the growing demand for Frito-Lay products has brought about completion of new manufacturing facilities in Beloit, Wisconsin, and San Antonio, Texas; major expansion of existing facilities in Williamsport, Pennsylvania, and Orlando, Florida; and the start of further construction in Jackson, Mississippi, Sharon, Pennsylvania, and Kirkwood, New York.

Anticipating a continuing national energy problem, and in pursuit of further operating economies, Frito-Lay has begun an aggressive research program to reduce its long-term consumption of fuels and water in its manufacturing operations, and continues to pursue programs that minimize their impact on supplies of these valuable resources.

Their consistent freshness is one reason Frito-Lay products have become America's most popular snack foods, with young and old alike. Frequent outlet service by the industry's largest sales force makes it possible. Now, the consumer has positive assurance of that freshness: a date imprinted on each package indicates when the salesman should remove it from display and replace it with a new one.

Employment opportunities are expanding at Frito-Lay, both for ethnic minorities and for women filling new occupational roles. For example, 28 women now drive route trucks, deliver product, and solicit new accounts as aggressively as "men only" once did—and earn comparable wages for doing it.


Lay's
POTATO CHIPS
Doritos
Ruffles
Munchos
ROLD GOLD
funyuns


Fritos
BRAND
CORN CHIPS
Lay's
POTATO CHIPS
FRITO-LAY

Sporting Goods

In 1973, Wilson Sporting Goods Company effectively expanded its market in several ways.

Substantial quality improvements, incorporating newly developed technology, new materials, or both, have made a number of existing Wilson products more competitive in their fields. This is particularly so in the case of the LD and K28 brand golf balls—for pro shops and retail sporting goods outlets, respectively—now being produced on new equipment in the expanded facility at Grand Rapids, Michigan.

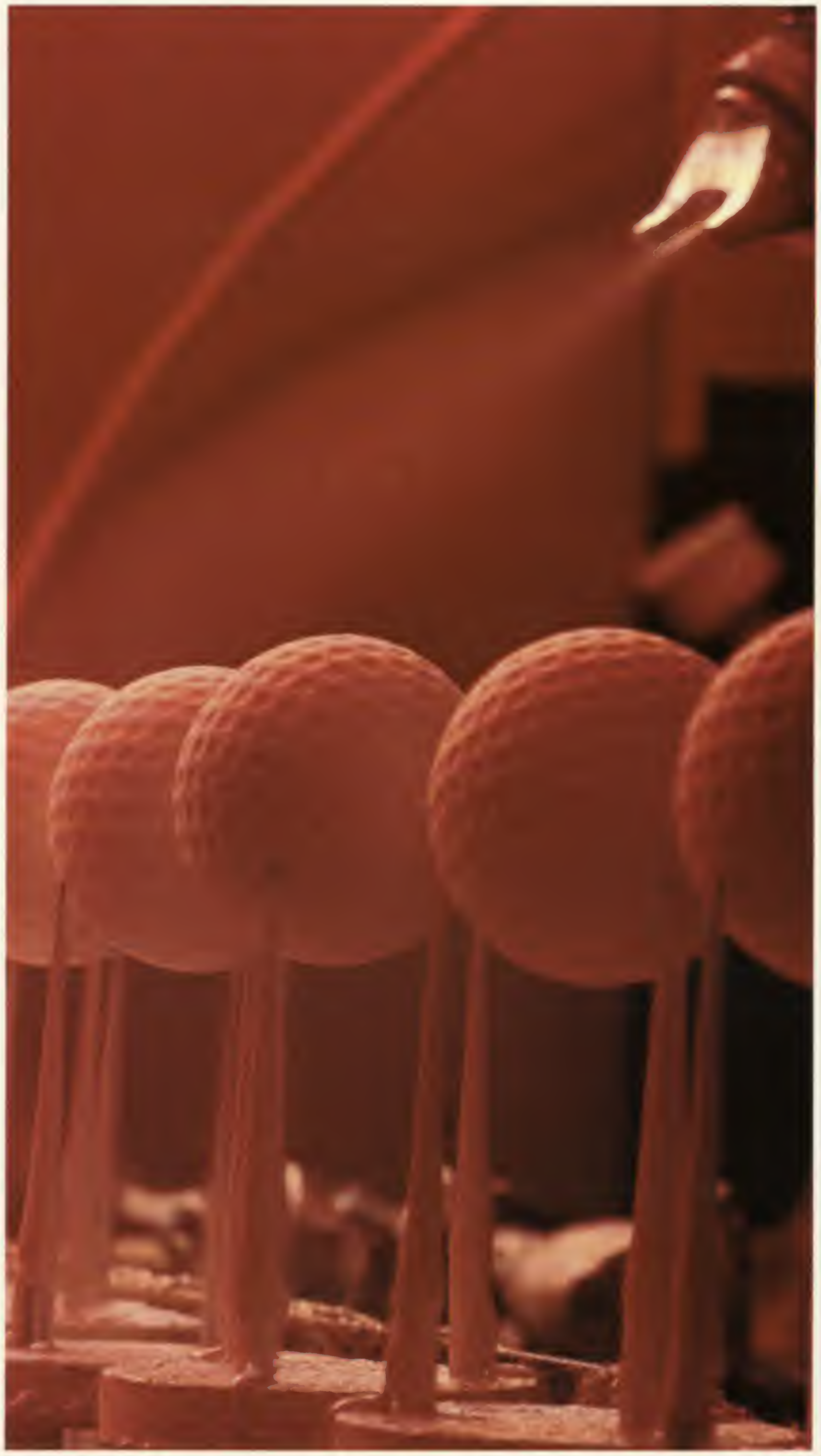
As Wilson continues to evaluate its extensive product array, production capacity is being enlarged to accommodate consumer demand for the more successful items, such as Wilson's popular brands of wooden and steel tennis rackets.

In addition, new product entries and entire new lines of sports equipment have been launched successfully. For example, the Red W line of tennis clothing has been expanded to include several new items, such as double-knit slacks, which have found a receptive market. (A measure of the importance of this field is that the market for tennis clothing is as large as that for rackets, balls, and other playing equipment.)

A unique new line of football helmets intended for the institutional market is made of the same transparent, impact-resistant plastic developed for the astronauts' helmets. Team colors and identification painted on their inside, rather than outside, surfaces will be impervious to scuffing and wear.

In a bid for the professional, amateur and scholastic market for ice hockey equipment, Wilson has developed and introduced an entire new line of items for that sport.

Also developed and introduced during the year were a number of colorful and attractive point-of-sale display merchandising materials, to enhance the consumer appeal of Wilson products sold in retail outlets.



Production capacity has been substantially enlarged at Wilson's Grand Rapids golf ball factory.

Production is likewise being doubled at the Cortland, N.Y., factory which produces the new Advantage brand premium wooden racket.

Wilson's new plastic football helmet.

Wilson has introduced an entire new line of ice hockey equipment.


Wilson

International Operations

PepsiCo's overseas soft drink business has shown excellent progress, re-establishing this division's trend of vigorous sales growth. Profits also rose at an improved rate, but were retarded somewhat by governmental control programs, particularly in Argentina.

Expansion was highlighted by our introduction into the huge market of Indonesia, with an estimated population of 132 million.

Construction of the new facility which will serve the Soviet Union has been completed, with production start-up and market introduction scheduled for this spring.

Sales surged dramatically in a number of markets throughout the world—in such widely separated areas as Korea, Eastern Europe, Jordan, Turkey and Taiwan—and registered strong gains in such established areas as Venezuela, Canada, Thailand and Western Europe. Consumer promotions were especially successful in Spain, Thailand, Jordan, the Philippines, Iran and Turkey.

Sales of Mirinda and other flavor brands—in the largest and fastest-growing segment of the foreign market—increased substantially.

In Canada, Pepsi-Cola successfully introduced large-size packages (40- and 53½-ounce sizes) in a number of markets where they have a strong value appeal, as in the U.S.

A long history of company and local bottler involvement with community service programs continued during the year. The Pepsi bottler in Ecuador, for example, sponsors and operates a number of public health clinics; the bottler in Guadalajara, Mexico, has contributed heavily to the construction of the municipal school system; and when recent earthquakes devastated Managua, capital of Nicaragua, the company and the local Pepsi organization acted swiftly to make large quantities of potable water available in the early hours of

In the Philippines, an intensive year-round program of modern consumer promotions (like the one depicted on trucks being loaded at the Quezon City plant) helped greatly to increase 1973 profits. Yet elsewhere in the same country, the ultimate reach of Pepsi's worldwide distribution network is a shipment of product pulled by a *carabao,* bound down a rural trail for an otherwise inaccessible outlet in the hinterlands.

Among the world's newest Pepsi-Cola retailers is the proprietor of a street refreshment stand in Djakarta, Indonesia.


sabritas
Crujitos
Patatas concha


PEPSI...
minuman
masa
kini
PEPSI
PEPSI

crisis. Contributions to civic, charitable and cultural efforts have become an honored tradition of Pepsi-Cola's involvement with the communities it serves in 133 countries and territories throughout the world.

During the year, 14 new bottling plants went into operation—in Nova Lisboa, Angola; Echuca and Forbes, Australia; Malacky, Czechoslovakia; Budapest, (a second plant), Miskolc and Sarvar, Hungary; Djarkarta, Indonesia; Gorgan, Iran; Toscana, Italy; Auckland, New Zealand; Multan, Pakistan; Gdansk, Poland; and Tunis, Tunisia.

Our overseas operations in the snack food business have been reorganized under a new separate corporate division, Foods International. The pattern followed generally has been to acquire established local snack food producers in such countries as Mexico, Venezuela, Sweden, Spain and France; augment their existing staffs with management specialists from the domestic snack food business or other corporate or division staffs; and institute tightly controlled distribution and merchandising procedures successfully developed in the domestic snack market. As a result of this program, these companies as a whole increased their total sales by 28 percent last year. As the initial building and investment phase in these operations is completed, they can be expected to show a profit gain commensurate with their rising volume.

The Brazilian soccer star known to millions simply as Pelé is the best-known, highest-paid athlete who has ever lived. His near-universal fame is now the focal point of an international youth program sponsored by Pepsi-Cola bottlers throughout the world.

Transportation

The main element of PepsiCo's activities in the field of transportation, northAmerican Van Lines, continued its trend of steady market share improvement during 1973. One contributing factor was a well-trained team of field managers helping some 700 NAVL agents better their performance in sales, marketing, operations and administration.

The automated information system introduced last year continues to enable NAVL to schedule and trace shipments more precisely and economically, and provide improved customer service.

National Trailer Convoy, which transports mobile homes, functions in an industry which has enjoyed compounded annual growth of over 20 percent in the past 10 years. Currently, industry growth has slowed, but recovery to prior trends is expected in the near future. NTC increased its penetration of this market in 1973, and is formulating aggressive plans to capture an even larger share of this business. NTC's Freight Division has become a major factor in its field, the moving of pre-fabricated buildings and building supplies.

The PepsiCo Truck Rental portion of our transportation business has continued to expand its facilities into new as well as in existing metropolitan markets—where recent research studies indicate a favorable potential for growth. These studies will be the guide to PTR's most profitable points of market entry or expansion, and the most advantageous site selection for growth.

The Mobilease Corporation, another Transportation Division company, is currently expanding its facilities as a major supplier of relocatable commercial structures, used as classrooms, temporary office space, bank branches, construction site offices, and in other applications. Future marketing prospects are excellent for this service.

National Trailer Convoy is the second-largest transporter of mobile homes in America (and Canada's largest).

A new sign goes up over PepsiCo Truck Rental's huge new service facility in Tulsa.

Mobilease Corporation supplied the relocatable structure used as a branch office by one of California's leading banks.

Improved communications systems and a continuing dedication to customer satisfaction furthered northAmerican Van Lines reputation as a leading mover of household goods and industrial products.


northAmerican
VAN LINES


rthAmeric
VAN LINES

Wines and Spirits

Monsieur Henri Wines, Ltd., acquired in August 1972, continues to fulfill our high expectations for its growth.

During 1973, Yago Sant'Gria became America's largest selling imported wine, as the combined result of geographical expansion and the development of existing markets, aided by the addition of new magnum (half-gallon) packages designed for quantity-purchase value appeal.

During the year, Monsieur Henri and the Spanish firm which is its partner proceeded with construction of a new facility in La Bastida, Spain, for production of Yago Sant'Gria. With a greatly expanded capacity, this plant—the largest and most modern winery in Spain—will better fulfill the enormous present and anticipated demand for this product.

Stolichnaya Russian vodka achieved wider distribution during the year, and is now available in major market areas that account for 58 percent of total U.S. vodka sales. It gained valuable exposure to the consumer during the year-end holidays with a specially designed gift-box package, and further advertising and merchandising appeals are being planned that will strengthen Stolichnaya's position as the only authentic Russian vodka sold in America, and therefore the premium brand of choice for the discriminating buyer.

Monsieur Henri, during 1973, acquired the 355-year-old K. L. Schmitt firm of Nierstein, Germany—providing an assured source of very fine and rare German wines, as well as excellent vineyards in the vicinity.

Increasing distribution of Stolichnaya brought it within reach of millions more discerning consumers who value its distinction as the only authentic Soviet-produced vodka sold in America.

Meanwhile, Yago Sant'Gria became the most popular imported wine in America—thanks largely to its acceptance among young people as a natural accompaniment to pleasant occasions.


yago
yago

Leasing

The activities of PepsiCo's Leasing Division consist of Chandler Leasing, handling general equipment; Rental Electronics Inc., specializing in electronic test equipment; and small automotive leasing companies in Mexico and Puerto Rico.

While Chandler continues principally as a lessor of general equipment (including aircraft, industrial machinery, and a wide variety of other items), its recent research studies have indicated a high potential in more specialized fields, such as hospital equipment; consequently, special effort was directed in 1973 toward further development of this market—including a highly successful program of print advertising that will be expanded during 1974. On the other hand, several national marketing programs in the computer peripheral field were discontinued in 1973 under arrangements mutually beneficial to Chandler and the manufacturers.

The leased equipment available in the hospital field includes "high ticket" items such as nuclear medicine equipment as well as such common supplies as beds and kitchen appliances—or, potentially, all equipment involved in a hospital except the land and buildings. An increasing number of hospitals, in order to provide their patients with the full benefit of modern technological equipment available, are using this method of financing rather than the heavy capital expenditures that purchasing such items would require.

The Leasing Division continues to pursue the potential of other new market opportunities in such diverse leasing items as cash registers, airline loading ports, commercial fishing boats, and oil well exploration equipment, including supply helicopters and tenders.

Chandler Leasing continued its brisk business in general equipment, including industrial production machinery, while aggressively developing a rapidly expanding new market in hospital equipment—including everything from beds and room furnishings . . .

. . . to the highly sophisticated, immensely costly new therapeutic and diagnostic devices serving modern medicine.


Chandler
Leasing


PEPSI
NASTAR
Pepsi-Cola/Junior NASTAR
551
basin
555
611

Each week at 85 popular ski resorts, youngsters under 18 take part in competitions sponsored by Pepsi-Cola and the NASTAR organization that help them sharpen their skills in what has become one of America's fastest-growing sports.

Financial Review

Revenue & Earnings. Both revenues and earnings set new records for the fifty-two week fiscal year ended December 29, 1973, compared to the fifty-three week fiscal year of 1972. Sales rose to $1.7 billion, an increase of 21 percent from 1972. Excluding the soft drink operations acquired from Rheingold Corp., the increase was 15 percent. Net income rose 11 percent to $79.6 million and earnings per share rose 10 percent to $3.36. Principally because of the severe cost/price squeeze experienced under government control programs in the U.S. and inflation-related losses in Argentina, the after-tax profit margin declined from 4.9 percent in 1972 to 4.5 percent in 1973, after having risen in the two prior years. Exceptional sales gains and stringent cost controls made it possible to continue the strong growth trend in net income and earnings per share at or above the corporate goal of 10 percent. Earnings per share for the last five years are as follows:

Fiscal Year	Earnings Per Share	Percent Increase
1969	$2.33	11.0
1970	2.49	6.9
1971	2.71	8.8
1972	3.05	12.5
1973	3.36	10.2

The average compound growth rate in earnings per share from 1968 to 1973 was 9.9 percent. In 1973, the growth in earnings per share was 10.2 percent.

Lines of business. All of PepsiCo's lines of business made progress in 1973. Sales gains were exceptional in the food, sporting goods, and transportation lines. In contribution, a major gain was realized in sporting goods. In the beverage, food, and transportation lines of business, margin pressures kept contribution gains considerably below their gains in sales. Even so, good profit gains were realized in each of these lines. While growth in leasing activities was interrupted by discontinuing several operations, the remaining activities continued to show good gains in revenue and contribution.

Sales and Revenues

	1973[1]	1973[2]	1972	1971	1970	1969
Beverage	47%	44%	45%	46%	46%	52%
Food	29	31	30	29	29	32
Transportation	10	11	10	10	11	12
Sporting Goods	10	10	10	10	9	—
Leasing	4	4	5	5	5	4
Totals	100%	100%	100%	100%	100%	100%

Contribution before taxes and corporate interest and expenses

	1973[1]	1973[2]	1972	1971	1970	1969[3]
Beverage	56%	54%	58%	61%	63%	65%
Food	25	26	26	25	24	22
Transportation	7	7	7	7	7	8
Sporting Goods	10	11	7	6	6	—
Leasing	2	2	2	1	—	5
Totals	100%	100%	100%	100%	100%	100%

[1]Including soft drink operations acquired from Rheingold Corp.
[2]Excluding soft drink operations acquired from Rheingold Corp.
[3]Before extraordinary items.
See Notes under Historical Financial Information on Page 34.

International operations. PepsiCo's operations outside the United States for the two years 1973 and 1972 accounted for 22 percent and 19 percent of the total worldwide sales and revenues, and 25 percent and 23 percent, respectively, of total contribution to income before taxes and corporate interest and expenses.

During 1973 the U.S. dollar fluctuated widely against the currencies of the world's industrialized nations, and due to the uncertainties surrounding the creation of a new world monetary system, it is expected that these fluctuations will continue for some time. To cope with this situation, PepsiCo has continually taken special measures to protect its overseas assets, with the result that the unstable foreign exchange markets had no significant effect on PepsiCo's results in 1973.

Debt. Total consolidated debt of PepsiCo at year end was $347,394,000, up from $257,603,000. This resulted from higher working capital needs associated with the exceptional sales increase in the divisions, higher levels of capital expenditures and the debt associated with Rheingold's acquisition. Because of the unsettled conditions in the domestic and international financial markets, PepsiCo maintained maximum flexibility by relying on short-term debt. As conditions in the market change, efforts will be undertaken to refinance such debt on a longer term basis. The overall financial strength of the corporation continued with shareholder's equity increasing to $498,558,000, an all-time record.

	1973	1972
	(in thousands)	
Current borrowings—domestic	$ 60,031	$ 2,411
—foreign	58,050	43,185
Total Current	118,081	45,596
Long-term debt—current	6,349	4,954
—non-current		
—senior	167,401	152,322
—subordinated	55,563	54,731
Total long-term debt	229,313	212,007
Total interest-bearing debt	$347,394	$257,603

(See Note 5 on page 30 for additional details.)

Capital Expenditures. During 1973, the Company (exclusive of leasing subsidiaries) invested $87,957,000 in capital projects, substantially above the $56,632,000 spent in 1972. Major capital projects were undertaken to expand capacity to meet strong demand, particularly in the food and international areas. Major additions were required in plant and equipment and also in distribution and transportation facilities. In view of the continuing opportunities for investment in the future growth of PepsiCo, capital spending in 1974 is expected to continue to increase sharply to approximately $125 to $135 million. This abnormally high level of expenditures is not concentrated in a few major projects, but represents a wide distribution of projects in many areas to bring operating capacities more in line with growth requirements.

Rheingold Acquisition. At the end of 1972, PepsiCo had an investment in Rheingold Corp.—at cost—of $59,947,000. During 1973, the Company assumed control of Rheingold and completed acquisition of the minority interest. The 1973 statements include Rheingold's soft drink bottling operations on a fully consolidated basis. For additional data related to the acquisition, see Note 2 on page 29.

Consolidated Statement of Income and Retained Earnings (in thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 29, 1973 (fifty-two weeks) and December 30, 1972 (fifty-three weeks)

	1973	1972
Revenues		
Net sales	**$1,697,924**	$1,400,115
Interest and other income	**29,019**	20,977
Total revenues	**1,726,943**	1,421,092
Costs and Expenses		
Cost of sales	**930,717**	749,254
Marketing, administrative and other expenses	**630,938**	530,063
Interest expense	**24,434**	14,351
Total costs and expenses	**1,586,089**	1,293,668
	140,854	127,424
Provision for United States and foreign income taxes (including deferred: 1973—$10,400; 1972—$4,300)	**64,263**	58,241
	76,591	69,183
Equity in net income of leasing subsidiaries	**3,005**	2,535
Net Income	**79,596**	71,718
Retained earnings at beginning of year	**353,819**	305,425
Cash dividends (per share: 1973—$1.14; 1972—$1.00)	**(26,968)**	(23,324)
Retained earnings at end of year	**$ 406,447**	$ 353,819
Net Income Per Share	**$3.36**	$3.05

See accompanying notes.

Consolidated Balance Sheet (in thousands)

PepsiCo, Inc. and Subsidiaries
December 29, 1973 and December 30, 1972

Assets

	1973	1972
Current Assets		
Cash	$ 16,255	$ 17,042
Short-term securities (approximates market)	105,597	77,052
Notes and accounts receivable, less allowance	196,778	140,514
Inventories	182,866	134,016
Prepaid expenses	14,115	16,094
	515,611	384,718
Investments and Long-Term Receivables		
Leasing subsidiaries—at equity	71,295	72,192
Rheingold Corp.—at cost	—	59,947
Long-term receivables and other investments	39,052	14,376
	110,347	146,515
Property, Plant and Equipment		
Land	27,427	21,653
Buildings	134,137	119,888
Machinery and equipment	370,004	318,232
Bottles and cases	53,885	52,459
	585,453	512,232
Less accumulated depreciation	209,314	189,404
	376,139	322,828
Goodwill—cost in excess of net assets of companies acquired	120,890	63,688
Other Assets	26,677	17,803
	$1,149,664	$935,552

See accompanying notes.

	1973	1972
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (including current installments on long-term debt)	**$ 124,430**	$ 50,550
Accounts payable and accrued liabilities	**201,170**	139,665
United States and foreign income taxes	**22,025**	33,322
Customers' deposits on bottles and cases	**19,553**	13,164
	367,178	236,701
Long-Term Debt	**222,964**	207,053
Other Liabilities and Deferred Credits	**13,264**	13,730
Deferred Income Taxes	**47,700**	37,300
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding 1973—23,684,222 shares; 1972—23,564,336 shares	**3,947**	3,927
Capital in excess of par value	**88,164**	83,022
Retained earnings	**406,447**	353,819
	498,558	440,768
	$1,149,664	$935,552

Consolidated Statement of Changes in Financial Position (in thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 29, 1973 (fifty-two weeks) and December 30, 1972 (fifty-three weeks)

	1973	1972
Financial Resources Provided:		
Operations		
Net income	$ 79,596	$ 71,718
Depreciation and amortization	41,634	33,996
Deferred income taxes	10,400	4,300
Other	1,641	1,901
	133,271	111,915
Capital stock (including conversion of debentures)	5,162	8,342
Long-term debt	21,443	49,508
Property disposals	7,939	8,215
Leasing subsidiaries	897	11,932
Sales of subsidiary companies and other investments	9,617	13,061
	178,329	202,973
Financial Resources Applied:		
Dividends	26,968	23,324
Purchase of Rheingold Corp.	7,373	59,947
Purchase of minority interest in Wilson Sporting Goods Co.	—	15,433
Other companies purchased for cash	9,965	1,523
Plant and equipment	87,957	56,632
Long-term debt	22,791	40,631
Containers—net	1,426	1,758
Other, principally long-term receivables and other investments	21,433	5,724
	177,913	204,972
Increase (decrease) in working capital	$ 416	$ (1,999)
Increase (Decrease) in Working Capital, by Element:		
Cash and short-term securities	$ 27,758	$ (6,452)
Receivables	56,264	20,356
Inventories	48,850	19,999
Prepaid expenses	(1,979)	1,970
Notes payable	(73,880)	(6,346)
Income taxes	11,297	(4,125)
Other current liabilities	(67,894)	(27,401)
Net increase (decrease) in working capital	416	(1,999)
Working capital at beginning of year	148,017	150,016
Working capital at end of year	$148,433	$148,017

See accompanying notes.

Note 1—Summary of significant accounting policies.

PepsiCo's accounting policies are in accordance with generally accepted accounting principles. Outlined below are those policies considered particularly significant for PepsiCo.

Principles of Consolidation. All domestic and foreign subsidiaries, except Rheingold Corp. for 1972 and leasing subsidiaries, have been consolidated. Rheingold Corp. was carried at cost at December 30, 1972, as described in Note 2. Leasing subsidiaries are carried at equity; see Note 10 for their condensed financial statements.

Foreign Operations. In general, assets and liabilities expressed in foreign currencies are translated into U.S. dollars at year-end exchange rates, except for inventories and property, plant and equipment, which are translated at rates in effect at the time these assets were acquired. Income accounts are translated at rates prevailing during the year, except that inventories charged to cost of sales and depreciation are based on the historical equivalent dollar costs of the related assets. Foreign exchange gains and losses, including those arising from translation and forward exchange contracts, are included in income, except that translation adjustments pertaining to long-term debt are deferred and amortized over the remaining life of the debt.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant and Equipment. Land, buildings and machinery and equipment, including improvements to existing facilities, are carried at cost. Depreciation is calculated principally on a straight-line basis over estimated service lives of the respective assets. Maintenance and repairs are charged to expense as incurred.

Valuation of bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage is charged to cost of sales. In general, returnable bottles and cases in foreign operations are carried at cost and those of domestic operations, where such containers are less prevalent, are reduced to deposit value when placed in use.

Goodwill. Costs in excess of net assets of companies purchased since the adoption of Accounting Principles Board Opinion No. 17 in 1970 and of certain other companies purchased before that time (totalling approximately $66,000,000 in 1973) are being amortized over appropriate periods not exceeding 40 years. Other such costs are not being amortized since there is no present indication that they have diminished in value.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. Deferred income taxes arise from timing differences between financial and tax reporting, principally for depreciation and income recognition on certain leases.

Recognition of benefits from investment tax credits is deferred and amortized over the useful lives of the related assets.

PepsiCo includes the operations of U.S. subsidiaries, except Rheingold, in its consolidated federal income tax return. PepsiCo has the policy of having separate subsidiary groups included in its consolidated federal income tax return provide for federal income tax expense as if each group filed its own tax return, but net of investment tax credits, without limitation, attributable to each group. For this purpose, the combined leasing subsidiaries are considered as a single subsidiary group. All deferred taxes in excess of those applicable to financial statement income of the combined leasing subsidiaries are included in deferred income taxes in the consolidated financial statements.

U.S. and foreign income taxes have been provided at less than the statutory U.S. federal rate of 48% since earnings of foreign operations are subject to an aggregate tax rate of less than 48%. This is principally because earnings of a U.S. subsidiary operating in Puerto Rico (which have been invested in short-term securities) are not taxable.

Additional taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of foreign subsidiaries have been reinvested indefinitely in foreign operations. Accordingly, provision has not been made for the additional taxes, not material in amount, that might be payable upon the remittance of these earnings.

Net Income Per Share. Net income per share is calculated by dividing net income by the weighted average number of capital shares and capital share equivalents (qualified stock options) outstanding during the year. The conversion into capital stock of all convertible debentures, after elimination of related interest expense, would result in a dilution of less than 3%.

Note 2—Rheingold Corp. In November 1972, 82% of the outstanding common stock of Rheingold Corp. was purchased in a cash tender offer. At that time, the Federal Trade Commission challenged PepsiCo's acquisition of shares of Rheingold, alleging that it violated certain provisions of the Federal antitrust laws. In January 1974, PepsiCo entered into a consent order with the FTC which settled the antitrust litigation. The consent order principally requires PepsiCo to divest Rheingold's concentrate manufacturing subsidiary, Flavette Corporation, and PepsiCo's St. Louis, Missouri soft drink bottling operations and assets by August 1975. Compliance with this consent order is not expected to have a material adverse effect on the financial position or operations of PepsiCo. In December 1973, the acquisition of the minority interest in Rheingold was completed with the merger of Rheingold and another subsidiary of PepsiCo.

In November 1973, PepsiCo, in a cash tender offer, acquired $13,907,000 of the $15,000,000 principal amount of Rheingold's 6½ % Convertible Subordinated Debentures due 1994.

Rheingold's principal activities have consisted of soft drink

(including bottling of PepsiCo products) and brewery operations. At the time of the tender offer in November 1972, PepsiCo announced it had no intention to continue in the brewery business on a long-term basis, and in March 1974, contracts were signed for the sale of Rheingold's brewery operations for no proceeds. The financial results of the brewery operations and their divestiture are being accounted for as an adjustment of the cost of acquiring the soft drink bottling operations.

Because assumption of control of Rheingold had been delayed beyond the end of 1972 and because PepsiCo had not had access to sufficient financial information regarding Rheingold to enable its inclusion in the 1972 consolidated financial statements, the investment in Rheingold was carried at cost in PepsiCo's consolidated balance sheet at December 30, 1972. In 1973, Rheingold's soft drink bottling operations, which had sales of $94,725,000, have been fully consolidated; their effect on PepsiCo's 1973 net income was insignificant. In 1972, Rheingold's soft drink bottling sales, which are not included in PepsiCo's operations, were $82,865,000; inclusion of these operations on a pro forma basis for 1972 would not have had a material effect on 1972 consolidated operating results.

As of January 1, 1973, assets and liabilities of Rheingold's soft drink bottling operations acquired by PepsiCo, were:

Working capital	$ 4,947,000
Property, plant and equipment	18,164,000
Brewery (including estimated losses from operations and disposition and estimated tax effects) and other	3,855,000
Long-term debt	(16,646,000)
Net tangible assets acquired	10,320,000
Goodwill	57,000,000
Total investment in stock during 1972 and 1973	$67,320,000

Goodwill represents the cost of Rheingold in excess of the net tangible assets acquired and is being amortized over 40 years.

Note 3—Other acquisitions. In August 1972, PepsiCo acquired Monsieur Henri Wines, Ltd. and related companies for 369,065 of its capital shares in a transaction accounted for as a pooling of interests.

In December 1972, the acquisition of the minority interest in Wilson Sporting Goods Co. was completed with the merger of Wilson into PepsiCo.

Note 4—Foreign operations. Total assets and total liabilities of consolidated subsidiaries and branches outside the U.S. and Puerto Rico at December 29, 1973 were $273,143,000 and $134,867,000, respectively. Sales to customers outside the U.S. were $376,161,000 in 1973 and $274,209,000 in 1972. Net foreign exchange gains, reflected in income (before income taxes), including gains on translation and forward exchange contracts, were $900,000 in 1973 and $2,800,000 in 1972. These gains are before the effect that exchange rate changes had on related operating results expressed in U.S. dollars. A translation charge of $2,466,000 related to long-term debt borrowed in 1973 has been deferred (net of amortization) and is included in Other Assets.

Currency fluctuations subsequent to December 29, 1973 have not had a material effect upon PepsiCo.

Note 5—Long-term debt. At December 29, 1973 and December 30, 1972 long-term debt (less current installments) consisted of:

	1973	1972
	(in thousands)	
Floating rate loan notes, 12⅜% at December 29, 1973 and 7% at December 30, 1972. (Prepaid February 28, 1974)	$ 67,000	$ 69,000
Revolving credit notes	58,500	58,500
4¾% convertible subordinated debentures due $2,500,000 annually from 1982 to 1995 with the balance due in 1996	50,000	50,000
6¼% Swiss franc loan due $1,550,000 annually from 1984 to 1987 with the balance due in 1988	18,600	—
4½% convertible debentures due 1981	8,204	9,628
Other	20,660	19,925
	$222,964	$207,053

Revolving credit notes are outstanding under an agreement with a group of banks under which PepsiCo may borrow up to $58.500,000 in U.S. Dollars or Eurocurrencies until December 1976, at which time PepsiCo may convert them to a term loan payable in twelve semi-annual installments commencing June 1977. The notes bear interest at the prime rate of the respective lending U.S. banks (averaging 9.9% at December 29, 1973) to December 1975, and slightly higher rates in 1976 and later. The rates on Eurocurrency borrowings are based upon each bank's best Eurocurrency rate to prime borrowers. The agreement provides, among other things, for maintenance of minimum working capital and places certain restrictions upon payment of cash dividends. Of consolidated retained earnings at December 29, 1973 approximately $75,000,000 was free of such restrictions.

In February 1974 PepsiCo entered into an additional revolving Eurocredit Agreement with a group of foreign banks under which it may borrow up to $65,000,000 in Eurodollars or Eurocurrencies until February 1980. This full amount was borrowed in February 1974. Advances under this Agreement bear interest at the London Interbank deposit rate plus ½% through February 1977, with rates subject to renegotiation thereafter.

Note 6—Capital stock and capital in excess of par value. Shares reserved at December 29, 1973 were as follows:

Stock options	356,930
4½% convertible debentures (at $46.50 per share)	176,430
4¾% convertible subordinated debentures (at $63.50 per share)	787,402
Performance share plan	450,000
	1,770,762

At December 29, 1973, options were outstanding on 241,001 shares (of which 78,177 were then exercisable) having an aggregate price of $17,234,124. The balance of 115,929 shares reserved is available for future grants under the Company's 1964 and 1969 Plans. In 1973 options for 89,280 shares were exercised having an aggregate option price of $4,056,094;

options were granted for 61,800 shares having an aggregate option price of $5,105,368, and options for 13,813 shares were cancelled.

Under the 1972 Performance Share Plan for key executive employees, the Performance Share Committee, appointed by the Board of Directors, may award up to 450,000 performance share units, each unit being equivalent to a share of PepsiCo capital stock. Units may be awarded bi-annually, and once awarded, are earned only to the extent that PepsiCo achieves stated cumulative growth rates in net income per share over a four-year period. Payments to participants are to be made four years after the date of the award through issuance of PepsiCo capital stock or payment in cash, or combination thereof, as the Committee decides. During 1972, a total of 81,581 performance share units were awarded, of which 77,817 units were outstanding at December 29, 1973. The cost of the awards made under the Plan is being charged to income ($1,333,000 in 1973 and $2,351,000 in 1972, before accrued tax effect) over the applicable four-year period.

The increases in capital in excess of par value for 1973 and 1972 were the excess of proceeds or conversion price over par value of shares issued for:

	Shares		Amount	
	1973	1972	1973	1972
			(in thousands)	
Stock option plans	89,280	105,758	$4,041	$4,601
Conversion of debentures	30,606	86,439	1,327	3,709
Other			(226)	
	119,886	192,197	$5,142	$8,310

Note 7—Leases and commitments. Rental expense in 1973 and 1972 was $17,042,000 and $15,175,000, respectively. PepsiCo and its subsidiaries have commitments for rental of office space, plant and warehouse facilities, vehicular equipment and other personal property. PepsiCo is committed under leases expiring at various dates to 1992 having minimum aggregate annual rentals (exclusive of insurance, taxes and repairs) declining from approximately $8,900,000 in 1974 to $5,300,000 in 1978, and lesser amounts thereafter.

At December 29, 1973, PepsiCo and its subsidiaries were contingently liable under loan guarantees aggregating $12,400,000. PepsiCo is also contingently liable for the repurchase of vending equipment acquired by franchisees, on which $2,000,000 was unpaid at December 29, 1973.

Note 8—Pensions. PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees and certain of its employees outside the U.S. PepsiCo's policy is to accrue and fund normal cost and interest on prior service cost. Substantially all vested benefits have been funded. Pension expense was approximately $7,300,000 in 1973 and $8,800,000 in 1972.

During 1973 changes in certain actuarial assumptions were made which caused prior service costs to be overfunded and accounted for the reduction in pension expense in 1973.

Note 9—Litigation. PepsiCo and its subsidiaries are involved in various litigation matters, but believes that litigation to which it is a party will not have a material effect upon the accompanying consolidated financial statements.

In 1973, settlements were negotiated for all private civil antitrust actions against PepsiCo's subsidiary, Frito-Lay, Inc., certain of its competitors and PepsiCo charging violations of antitrust laws in connection with sales of certain snack foods in California, Arizona and Nevada. Costs related to settlement of all these actions were accrued in 1973.

The action by the Federal Trade Commission in connection with PepsiCo's acquisition of Rheingold Corp. was settled in January 1974. (See Note 2.)

Federal Trade Commission complaints are pending against eight soft drink manufacturers, including PepsiCo and its principal competitors, alleging that the territorial restrictions imposed on franchised soft drink bottlers in the United States unreasonably restrain trade. No monetary damages are sought. Management and counsel cannot evaluate the future financial or business effect, if any, on its domestic concentrate and syrup manufacturing or soft drink bottling business in the event an order is issued declaring such territorial restriction provisions to be illegal and such order is ultimately upheld by the courts.

The Company intends a vigorous defense of these matters.

Note 10—Leasing Subsidiaries. Condensed combined financial statements of the leasing subsidiaries shown below at December 31, 1973 and 1972, and for the years then ended include activities of PepsiCo Leasing Corporation (PLC) and other leasing subsidiaries of PepsiCo. Also included, until dates of their sale, are operations of various subsidiaries which were sold in 1973 and 1972.

Condensed Statement of Financial Position	1973	1972
	(in thousands)	
Cash	$ 21,230	$ 14,946
Leases and contracts receivable	194,096	171,881
Rental equipment, less accumulated depreciation (1973—$27,345,000; 1972—$26,929,000)	58,728	78,217
Allowance for losses on receivables and rental equipment	(10,315)	(7,868)
Other assets, including intangibles	7,331	8,751
Assets	271,070	265,927
Secured notes payable	41,392	93,798
Other notes payable	140,158	79,974
Accounts payable and accruals	15,797	17,448
Deferred U.S. income tax	—	1,215
Deferred investment tax credit	2,428	1,300
Liabilities (excluding those to PepsiCo)	199,775	193,735
PepsiCo equity in leasing subsidiaries	$ 71,295	$ 72,192
Represented by:		
Capital stock and surplus	$ 21,704	$ 24,149
Retained earnings	14,649	12,033
Net worth of leasing subsidiaries	36,353	36,182
Interest-bearing advances payable to PepsiCo (including $32,500,000 of subordinated notes due in 1980 and 1983)	32,857	34,315
Payable to PepsiCo	2,085	1,695
	$ 71,295	$ 72,192

Condensed Statement of Income and Retained Earnings	1973	1972
	(in thousands)	
Leasing and other income	$65,294	$55,470
Operating and administrative expenses (including depreciation: 1973—$12,414,000; 1972—$10,218,000)	47,736	43,597
Interest expense	16,396	11,822
Total expenses	64,132	55,419
Income from continuing operations	1,162	51
Income from discontinued operations	646	3,555
Income before provision for U.S. and foreign income taxes	1,808	3,606
Provision for U.S. and foreign income taxes (less investment tax credit: 1973—$1,025,000; 1972—$538,000)	(139)	1,071
Income before extraordinary items	1,947	2,535
Extraordinary items net of federal income tax of $358,000	1,058	—
Net income	3,005	2,535
Retained earnings at beginning of year	12,033	11,646
Retained earnings of Lease Plan, Inc. at date of sale	—	(1,762)
Retained earnings of companies consolidated with PepsiCo as of January 1, 1972	—	(361)
Dividend paid	(389)	(25)
Retained earnings at end of year	$14,649	$12,033

Condensed Statement of Changes in Cash	1973	1972
	(in thousands)	
Cash Provided (Applied):		
Operations:		
Net income	$ 3,005	$ 2,535
Depreciation and amortization	14,037	16,549
Deferred income taxes	22	793
Gain on sale of investment and equipment	(1,416)	—
Provision for losses on receivables and rental equipment in excess of actual losses incurred	2,447	2,499
Advances to PepsiCo	(3,902)	(14,467)
Property and equipment disposals	12,896	14,222
Property and equipment acquired	(31,560)	(33,528)
Sale of operations	27,357	10,000
Cash balances of companies sold or consolidated with PepsiCo in 1972	—	(7,792)
Leases and contracts receivable, net	(22,215)	(15,422)
Notes payable, net	7,778	3,165
Accounts payable and accruals and other	(2,165)	7,676
Increase (decrease) in Cash	$ 6,284	$ (13,770)

Notes to condensed financial statements.

a. Accounting Policies—Income earned on leases and contracts receivable is recognized over their terms on a declining basis in proportion to the related outstanding amounts receivable under the finance lease method of accounting. For certain new leases, a portion of total lease income is recognized upon lease commencement to offset estimated lease acquisition expenses. Such amounts for continuing operations were: 1973—$2,788,000; 1972—$2,073,000.

Under lease agreements involving rental equipment the operating method of accounting is used. Rental income is recognized principally as rentals become due, less related depreciation and interest expense. Other accounting policies of the leasing subsidiaries are generally similar to PepsiCo's—See Note 1.

b. In 1973, PLC terminated its distributor relationship with certain equipment manufacturers and sold certain rental equipment back to such manufacturers for $23,813,000 (including $8,706,000 of notes and other assets) at a net extraordinary gain of $234,000 after taxes; it also sold its minority investment in LPI South Africa for $3,544,000 in cash at an extraordinary gain of $824,000 after taxes. In December 1972, PLC sold Executive Car Leasing Corporation (ECLC) for $10,000,000 cash; in February 1972, PepsiCo sold its subsidiary Lease Plan, Inc. for $6,700,000 and the gain on this sale is included in PepsiCo's consolidated income. These 1972 transactions did not result in any material gain or loss. Before tax results of 1972 and 1973 operations related to these companies through the respective dates of sale and the sale of ECLC are shown as income from discontinued operations in the above condensed statement of income and retained earnings, and 1972 has been restated accordingly.

c. PepsiCo has guaranteed $10,000,000 of revolving credit notes and $10,100,000 of commercial paper of Pepsi-Cola Equipment Corporation (PCEC), which is engaged in providing leasing and financing services to Pepsi-Cola franchise bottlers. These obligations are included in other notes payable and are not collateralized. Transactions with PepsiCo included in continuing operations were: revenues—$1,079,000 in 1973 and $1,119,000 in 1972, purchases of services—$2,621,000 in 1973 and $2,561,000 in 1972, interest paid on advances and subordinated notes—$2,340,000 in 1973 and $2,096,000 in 1972 and expenses of PCEC charged to PepsiCo—$1,319,000 in 1973 and $119,000 in 1972.

d. Secured notes payable are repayable generally as related leases and contracts receivable are collected.

e. Other notes payable at December 31, 1973 and 1972 consist of:

	1973	1972
Short term unsecured notes	$ 10,500	$48,269
Commercial paper	10,100	19,000
Revolving credit notes—PLC	107,900	—
Revolving credit notes—PCEC	10,000	10,000
Other	1,658	2,705
	$140,158	$79,974

In 1973 PLC entered into an unsecured bank financing agreement under which it may borrow up to $130,000,000 during a two-year revolving credit period (renewable annually), and at the end of the revolving credit period, borrowings may be converted into a five-year term loan. Borrowings bear interest at ¼ % over the prime rate during the revolving credit period, and at slightly higher rates thereafter. The agreement provides for a minimum borrowing base and debt-to-equity ratio as a condition for loans, and restricts granting of liens and security interests and dividend and other distributions. Proceeds of this credit agreement were used to retire substantially all PLC's secured and other notes payable outstanding. PLC has an informal agreement with the lending banks to maintain average compensating balances equal to 15% of outstanding balances under this agreement plus 10% for any unused portion thereof.

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 29, 1973 and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 29, 1973 and December 30, 1972 and the consolidated results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, N. Y.
March 8, 1974

Historical Financial Information

	1973	1972
Operating Results (in thousands except per share)		
Net sales	**$1,697,924**	$1,400,115
U.S. and foreign income taxes	**64,263**	58,241
Income after taxes (before extraordinary items)	**79,596**	71,718
Per common share	**$ 3.36**	$ 3.05
Cash dividends paid (including pooled companies prior to merger)	**26,968**	23,324
Per common share	**$ 1.14**	$ 1.00
Additions to plant	**87,957**	56,632
Depreciation and amortization	**41,634**	33,996
Year-End Position (in thousands except per share)		
Working capital	**148,433**	148,017
Equity in leasing subsidiaries	**71,295**	72,192
Property, plant and equipment—net	**376,139**	322,828
Total assets	**1,149,664**	935,552
Long-term debt	**222,964**	207,053
Stockholders' equity	**498,558**	440,768
Per share	**$21.05**	$18.70
Statistics		
Employees	**49,000**	40,000
Stockholders	**46,000**	46,000
Average shares of common stock outstanding (in thousands)	**23,664**	23,525
Common shares outstanding at year-end (in thousands)	**23,684**	23,564
Ratios		
Current assets to current liabilities	**1.4 to 1**	1.6 to 1
Return on stockholders' equity	**16.0%**	16.3%
Return on sales (including leasing operations)	**4.5%**	4.9%

This statement has been retroactively adjusted for (a) companies acquired in transactions accounted for as poolings of interest (except for Monsieur Henri Wines, Ltd., which is included only since 1971 and which did not have a material effect on prior years) and for (b) a two-for-one stock split in 1967. All sales of Wilson Sporting Goods Co. have been included from the time of purchase in February 1970, and earnings have been included in proportion to PepsiCo's ownership. Sales and earnings of Rheingold, acquired in late 1972, have been included only for 1973.

1971	1970	1969	1968	1967	1966	1965
$1,239,127	$1,122,593	$949,390	$848,265	$758,337	$691,276	$585,059
50,583	41,200	42,000	39,200	29,200	28,800	26,400
63,031	56,053	51,884	46,454	42,531	40,352	35,496
$ 2.71	$ 2.49	$ 2.33	$ 2.10	$ 1.93	$1.85	$1.64
22,895	22,594	21,758	19,785	18,993	17,192	18,121
$ 1.00	$ 1.00	$ .975	$ .90	$ .875	$ .80	$ .80
54,047	63,442	70,235	40,414	38,621	37,497	32,491
30,077	26,030	23,832	22,631	21,501	18,798	15,740
150,016	97,165	61,323	95,408	93,155	88,649	58,952
89,376	76,348	66,012	22,364	18,776	14,563	15,366
301,928	274,038	229,736	198,257	175,685	159,747	121,406
833,802	757,895	538,991	471,916	417,741	402,842	300,805
198,176	177,514	91,112	68,273	73,505	79,621	23,571
384,032	331,240	288,659	264,163	235,511	208,916	185,188
$16.43	$14.58	$12.90	$11.90	$10.66	$9.54	$8.53
37,000	36,000	30,000	28,000	25,000	19,000	19,000
47,500	49,000	52,000	51,000	49,000	47,000	47,500
23,248	22,547	22,286	22,144	22,021	21,816	21,706
23,372	22,715	22,386	22,196	22,100	21,906	21,706
1.8 to 1	1.5 to 1	1.4 to 1	1.7 to 1	1.9 to 1	1.8 to 1	1.7 to 1
16.4%	16.9%	18.0%	17.6%	18.1%	19.3%	19.2%
4.8%	4.7%	5.2%	5.3%	5.5%	5.7%	5.9%

PepsiCo, Inc. Directors

Donald M. Kendall*
Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.

Herman W. Lay*
Chairman of the Executive Committee, PepsiCo, Inc.

Andrall E. Pearson*
President, PepsiCo, Inc.

Angus S. Alston*†
Chairman of the Board and Chief Executive Officer, Southwestern Bell Telephone Co.

Victor A. Bonomo
President and Chief Executive Officer, Pepsi-Cola Company and Vice President, Beverage Operations (U. S.), PepsiCo, Inc.

George Champion†
President of Economic Development Council of New York City, Inc.; Chairman of the Audit Committee, PepsiCo, Inc.

T. Vincent Learson
Member of the Board of Directors and of the Executive and Finance Committees, International Business Machines Corporation

Harold R. Lilley
President, Frito-Lay, Inc. and Vice President, Food Operations (U. S.), PepsiCo, Inc.

James M. Roche*†
Director of General Motors Corporation

Herman A. Schaefer
Executive Vice President, Finance and Administration, PepsiCo, Inc.

Robert H. Stewart III*†
Chairman of the Board, First International Bancshares, Inc.

Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

*Member of Executive Committee
†Member of Audit Committee

Executive Offices

PepsiCo, Inc.
Purchase, New York 10577

Principal Divisions and Subsidiaries:

Pepsi-Cola Company
Purchase, New York 10577
Victor A. Bonomo, *President*

Frito-Lay, Inc.
Frito-Lay Tower, Exchange Park
Dallas, Texas 75235
Harold R. Lilley, *President*

Monsieur Henri Wines, Ltd.
131 Morgan Avenue, Brooklyn, New York 11237
Maurice Feinberg, *President*

PepsiCo International
Purchase, New York 10577
Peter K. Warren, *President*

PepsiCo Leasing
101 Hartwell Avenue, Lexington, Massachusetts 02173
Stillman B. Brown, *President*

PepsiCo Transportation
1925 National Plaza, Tulsa, Oklahoma 74151
Richard J. Caley, *President*

Wilson Sporting Goods Co.
2233 West Street, River Grove, Ill. 60171
Thomas P. Mullaney, *President*

Registrars
The Chase Manhattan Bank N.A.
1 Chase Manhattan Plaza, New York, New York 10015
(212) 552-2222
The First National Bank of Chicago
One First National Plaza, Chicago, Illinois
(312) 732-4000
Republic National Bank of Dallas
P.O. Box 2964, Dallas, Texas 75221
(214) 749-5000
The First National Bank of Atlanta
P.O. Box 4148, Atlanta, Georgia 30302
(404) 588-5000

Auditors
Arthur Young & Company
277 Park Avenue, New York, New York 10017

Annual Meeting
The Annual Meeting of stockholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 1, 1974. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation and is not to be used as such.

Transfer Agents
Marine Midland Bank—New York
485 Lexington Avenue, New York, New York 10017
(212) 692-3120
First Jersey National Bank
One Exchange Place, Jersey City, New Jersey 07303
(201) 333-1300
Harris Trust and Savings Bank
111 West Monroe Street, Chicago, Illinois 60690
(312) 461-2121
First National Bank in Dallas
P.O. Box 6031, Dallas, Texas 75283
(214) 749-4011
The Fulton National Bank of Atlanta
P.O. Box 3122, Atlanta, Georgia 30302
(404) 577-3500

Officers

Donald M. Kendall
Chairman of the Board and Chief Executive Officer

Herman W. Lay
Chairman of the Executive Committee

Andrall E. Pearson
President

Herman A. Schaefer
Executive Vice President, Finance and Administration

Robert J. Abernethy
Vice President, Manufacturing

Rowland A. Beers
Vice President, Personnel

Victor A. Bonomo
Vice President, Beverage Operations (U.S.)

Richard J. Caley
Vice President, Transportation

D. Wayne Calloway
Vice President, Financial Management and Planning, and Controller

Cartha D. DeLoach
Vice President, Corporate Affairs

Agustin Edwards
Vice President, Foods International

Gerald J. Fischer
Vice President, Corporate Development

Edward V. Lahey, Jr.
Vice President, General Counsel and Secretary

Harold R. Lilley
Vice President, Food Operations (U. S.)

Harvey Luppescu
Vice President, Tax Administration

Thomas P. Mullaney
Vice President, Sporting Goods

Joseph Neubauer
Vice President, Treasurer

Harvey C. Russell
Vice President, Community Affairs

Peter K. Warren
Vice President, International Operations

W. Lamar Lovvorn
Assistant Secretary

Walter S. Rosenstein
Assistant Secretary

Jerome T. Dilettuso
Assistant Treasurer

William T. Leitner
Assistant Treasurer

William R. Lewis
Assistant Treasurer

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